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### Adviser or Broker – Who Should You Use?

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Investors are often confused about where to get help. Should they use a broker, a financial adviser; or do they need both?

Here's a quick overview. Admittedly, being a broker I am somewhat "broker-biased." But someday I might be an adviser so I want to be fair.

First, let's agree that most advisers and brokers are good people trying to help their clients invest successfully. Both groups also have bad apples that either do not know what they are doing; or are actively taking advantage of their clients.

Many investors are confused about advisers and brokers because they both fill the same role of helping clients invest their money. When it comes to investing skills, neither one is necessarily any better than the other.

Part of the problem stems from the fact that brokers and advisers are regulated by different laws. These laws are old - enacted in the 1930s (for brokers) and 40s (for advisers) when no one anticipated today's competitive landscape.

Advisers have very few rules but the most important is that they have a fiduciary responsibility to their clients. This means their actions and recommendations must put their client's interest first. If their client wants to sell shares of IBM, they need to look at the investor's personal situation and make sure the client knows all the ramifications of the sale, such as taxes.

Brokers do not have a fiduciary duty to their clients. If a client calls and says "sell my IBM" a broker might inquire as to why - but if the client doesn't want to talk about it, the broker can still sell the shares. It would be impractical for brokers to automatically have a fiduciary duty to customers.

This does not mean brokers can just do anything they want. In fact they have significant and wide ranging responsibilities to clients. One of the most important is called "Suitability." This means that everything a broker recommends must be suitable to that particular investor. How do they know what's suitable? They ask questions and listen to their clients, the same way advisers do.

Beyond the "suitability" obligation, brokers have stringent rules regarding testing, supervision and continuing education. For instance brokers are required to pass demanding tests like the Series 7, before they can work with clients. Advisers have none of this.

From my perspective one problem with the advisers' setup is that they have a fiduciary responsibility to their clients, but there are no tests to see if they have the necessary skills to fulfill this duty. What good is an adviser's "promise" if they do not have the skills?

To overcome this potential problem, many advisers voluntarily take courses to certify their skills. One popular program is the Certified Financial Planner (CFP) in which potential CFPs have to pass in-depth and challenging tests. This program is top-notch and CFP holders are well versed in financial planning.

Some brokers also take extra study to improve and certify their expertise. For instance, I have a Chartered Financial Analyst (CFA) designation. One of the CFA's requirements is passing a series of examinations given over a three year period. Like the CFP tests, these are very difficult.

Early in 2005 the SEC finished another review of the adviser vs. broker debate and found that brokers have a robust regulatory environment and that consumers are well protected. They saw no need for brokers to have fiduciary roles.

The SEC also made clear that brokers can offer investment advice as long as it is in the normal course of their business. This means that brokers cannot offer advice on just any subject, but where they can offer advice; the SEC did not limit its depth or sophistication.

The SEC's biggest change was that brokers with discretion over their customers' money also need to be advisers. Yes, a financial professional can be both a broker and adviser.

What about costs? Neither an adviser nor a broker is automatically your best choice. You should ask them how they expect to make their money off your money. For many reasons this is a good line of questioning as it allows you to assess their clarity and transparency. If you have to dig really hard to extract this information, move on to the next applicant.

In summary, most investors need professional advice and both advisers and brokers can help, but you seldom need both. Try to find someone who seems honest and open; while listening to and clearly answering your questions.

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